

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its October 2006 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 3.3% in 2006, 2.4% in 2007, 3.3% in 2008, and 3.3% in 2009;
- U.S. nonfarm employment grows 1.4% in 2006, 1.1% in 2007, 1.4% in 2008, and 1.6% in 2009;
- the annual U.S. civilian unemployment rate is no higher than 5.0% through 2009;
- consumer inflation is 3.3% in 2006, 2.2% in 2007, 2.0% in 2008, and 1.8% in 2009;
- the current account deficit is \$875 billion in 2006, \$842 billion in 2007, \$830 billion in 2008, and \$858 billion in 2009; and
- the federal unified budget deficit is \$270 billion in 2006, \$287 billion in 2007, \$294 billion in 2008, and \$268 billion in 2009.

OPTIMISTIC SCENARIO

Global Insight has assigned its *Optimistic Scenario* a 20% probability of occurrence. Seven assumptions distinguish this scenario from the baseline. First, total factor productivity is stronger. Underlying this assumption is the belief the information-driven technology boom will continue. Second, foreign economic growth is stronger, which causes U.S. exports to grow faster in most years in this scenario. Third, the U.S. dollar is stronger in this scenario. Fourth, business investment is stronger. This is not hard to imagine because the current level of business spending is below the historical average at a time when businesses are running out of industrial capacity. Fifth, the federal budget deficit is lower thanks to higher revenues and lower federal transfer payments. Also contributing to the smaller deficit is lower interest payments. Sixth, lower mortgage interest rates contribute to stronger housing starts. Seventh, the *Optimistic Scenario* assumes energy prices are lower than in the baseline.

These assumptions produce a rosier forecast than the baseline. Real GDP is stronger in 2007, 3.1% versus 2.4%. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and the higher productivity gains. The lower inflation allows the Federal Reserve to keep its federal funds rate below the *Baseline Scenario's* rate. Job growth is also stronger, which keeps the unemployment rate below its baseline counterpart over the forecast period.

The strong U.S. productivity growth has a double-edged impact in Idaho. On the upside, it boosts local employment. In 2009, there are 171 more Idaho jobs than in the baseline case. On the down side, productivity gains lower wage increases. Unfortunately, the slight job gain does not offset the lower wages. As a result, Idaho nominal personal income in 2009 is significantly lower in the *Optimistic Scenario* compared to the *Baseline Scenario*, \$52.5 billion versus \$53.6 billion. However, this gap narrows when income is adjusted for inflation because prices rise slower than in the *Baseline Scenario*. Specifically, Idaho inflation-adjusted personal income is \$44.0 billion in 2009 in this scenario and \$44.2 billion in the baseline. In summary, Idaho nonfarm employment is up slightly and real Idaho personal income is down marginally in 2009 from their baseline counterparts.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
OCTOBER 2006

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
GDP (BILLIONS)												
Current \$	13,242	13,851	14,587	15,366	13,246	13,905	14,685	15,482	13,233	13,701	14,334	15,270
% Ch	6.3%	4.6%	5.3%	5.3%	6.3%	5.0%	5.6%	5.4%	6.2%	3.5%	4.6%	6.5%
2000 Chain-Weighted	11,412	11,681	12,066	12,468	11,416	11,765	12,249	12,729	11,405	11,521	11,723	12,086
% Ch	3.3%	2.4%	3.3%	3.3%	3.3%	3.1%	4.1%	3.9%	3.2%	1.0%	1.8%	3.1%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	43,949	46,995	50,053	53,592	43,921	46,660	49,363	52,478	44,008	47,826	51,524	55,861
% Ch	8.3%	6.9%	6.5%	7.1%	8.2%	6.2%	5.8%	6.3%	8.4%	8.7%	7.7%	8.4%
U.S. (Billions)	10,966	11,547	12,197	12,934	10,966	11,560	12,230	12,978	10,970	11,552	12,146	12,959
% Ch	7.1%	5.3%	5.6%	6.0%	7.1%	5.4%	5.8%	6.1%	7.1%	5.3%	5.1%	6.7%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	38,359	40,248	42,044	44,208	38,354	40,261	41,994	44,041	38,379	40,454	42,218	44,369
% Ch	5.4%	4.9%	4.5%	5.1%	5.4%	5.0%	4.3%	4.9%	5.4%	5.4%	4.4%	5.1%
U.S. (Billions)	9,571	9,890	10,245	10,670	9,576	9,975	10,404	10,892	9,567	9,772	9,952	10,293
% Ch	4.2%	3.3%	3.6%	4.1%	4.3%	4.2%	4.3%	4.7%	4.2%	2.1%	1.8%	3.4%
TOTAL NONFARM EMPLOYMENT												
Idaho	637,854	654,594	670,316	687,511	637,823	655,295	671,712	687,682	637,968	654,197	666,777	683,054
% Ch	4.3%	2.6%	2.4%	2.6%	4.3%	2.7%	2.5%	2.4%	4.3%	2.5%	1.9%	2.4%
U.S. (Thousands)	135,300	136,729	138,700	140,856	135,304	137,097	139,750	142,444	135,272	135,887	136,469	138,369
% Ch	1.4%	1.1%	1.4%	1.6%	1.4%	1.3%	1.9%	1.9%	1.4%	0.5%	0.4%	1.4%
GOODS-PRODUCING SECTOR												
Idaho	121,481	120,639	119,550	119,197	121,484	121,154	120,663	119,528	121,502	119,232	115,617	116,584
% Ch	8.1%	-0.7%	-0.9%	-0.3%	8.1%	-0.3%	-0.4%	-0.9%	8.2%	-1.9%	-3.0%	0.8%
U.S. (Thousands)	22,394	22,226	22,112	22,173	22,386	22,234	22,318	22,556	22,419	22,086	21,392	21,260
% Ch	1.2%	-0.8%	-0.5%	0.3%	1.1%	-0.7%	0.4%	1.1%	1.3%	-1.5%	-3.1%	-0.6%
NONGOODS-PRODUCING SECTOR												
Idaho	516,373	533,955	550,766	568,314	516,339	534,140	551,049	568,154	516,466	534,964	551,160	566,470
% Ch	3.4%	3.4%	3.1%	3.2%	3.4%	3.4%	3.2%	3.1%	3.4%	3.6%	3.0%	2.8%
U.S. (Thousands)	112,906	114,503	116,588	118,683	112,918	114,863	117,432	119,887	112,853	113,802	115,077	117,109
% Ch	1.4%	1.4%	1.8%	1.8%	1.4%	1.7%	2.2%	2.1%	1.4%	0.8%	1.1%	1.8%
SELECTED INTEREST RATES												
Federal Funds	5.0%	4.8%	4.5%	4.7%	5.0%	4.7%	4.3%	4.5%	5.0%	7.2%	7.1%	6.1%
Bank Prime	8.0%	7.8%	7.5%	7.7%	8.0%	7.7%	7.3%	7.5%	8.0%	10.2%	10.1%	9.1%
Existing Home Mortgage	6.6%	6.5%	6.7%	7.0%	6.6%	6.1%	6.2%	6.6%	6.6%	7.9%	8.5%	8.4%
INFLATION												
GDP Price Deflator	2.9%	2.2%	2.0%	1.9%	2.9%	1.9%	1.4%	1.5%	2.9%	2.5%	2.8%	3.3%
Personal Cons Deflator	2.8%	1.9%	2.0%	1.8%	2.9%	1.9%	1.4%	1.5%	2.8%	3.1%	3.2%	3.2%
Consumer Price Index	3.3%	2.2%	2.0%	1.8%	3.2%	1.4%	1.5%	1.3%	3.3%	3.2%	2.9%	2.9%

Forecast Begins the **THIRD** Quarter of 2006

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 25% probability of occurrence. In this scenario, a key lever in the forecast is core inflation is higher than in the baseline case. One of the reasons for the price acceleration is this alternative assumes there is less spare capacity in the world. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. This alternative forecast also assumes the dollar weakens as foreign investors flee the greenback over concerns of the huge U.S. trade deficit. The Federal Reserve raises interest rates more steeply in this alternative compared to the baseline. Despite this more aggressive stance, both the bond and stock markets slip on signs the Federal Reserve may have responded to rising inflation too slowly. Both of these factors point to higher interest rates than in the baseline. The rising interest rates deepen the housing downturn. The central bank may concede the round, but not the match, and it continues to raise rates in order to stop inflation.

Consumer confidence suffers from the higher interest rates and persistently high energy prices. Consumer confidence is dented further under the combined weight of slow job growth and increasing debt loads. As a result of these combined concerns, consumers reel in their discretionary spending, which causes the economy to suffer. The economy does not sink into a recession in this alternative, but merely fails to come as close to its potential as in the baseline. The weaker dollar causes production to shift from satisfying domestic demand to serving foreign demand.

As expected, Idaho nonfarm employment grows slower in the *Pessimistic Scenario* than in the *Baseline Scenario*, so there are about 4,500 fewer jobs in 2009. However, forecasted Idaho nominal personal income is actually higher in the forecast's terminal year. The nearly \$2.3 billion gap partially results from stronger wage growth that stems from the weaker productivity growth. But wages do not explain the entire gap. The dividends, interest, and rent income portion of personal income is also higher thanks to elevated interest rates. Adjusting for the higher inflation in the *Pessimistic Scenario* diminishes the personal income gap, but does not bridge it; Idaho real personal income is slightly higher in the current scenario compared to the baseline case.